

Disaster in Washington: Last week was a disastrous one in Washington, DC. No, there was not a tsunami or a hurricane or another earthquake. But, the effects of last week will be felt much farther, longer and wider than would have been the case in any of those natural disasters. Everyone of every political stripe understands that our debt and deficits stand as the largest threat to the prosperity and hegemony of the United States in the years and decades ahead. But, in spite of this acknowledged reality, actions in Washington last week served to make this situation dramatically worse, not better. However, almost disturbing is how this happened. The same political dynamics that led to these deficits in the first place have been left unchanged and are currently causing the deficit to increase rather than shrink. Let me explain what happened, and more importantly, how and why it happened:

President's Budget: The President's campaign slogan of late is an "economy built to last". Well, this is a "budget built to collapse". It astoundingly increases spending, taxes and the deficit, both in the coming year and over the next 10 years, against every other budget or projection that's out there. You have that right. It increases all three: spending, taxes and deficit. It moves annual federal spending from about \$3.8 trillion now to almost \$6 trillion by 2021. It projects \$11 trillion in NEW debt over that period, bringing the total debt to somewhere around \$27 trillion. And, taxes go up, but not as much as spending does. It makes trillion dollar annual deficits the new norm and makes government spending as a percent of the economy stay constantly at levels previously only ever reached during the height of World War II.

Now, I understand that this is an election-year, political document intended to appeal to the President's most liberal base. It would not get a single Republican vote and I expect that most Democrats in Congress would oppose it as well. So, it will not pass this year. But, I am disgusted that it does not even pretend to show an interest in controlling unsustainable deficits, debt and spending, and instead cavalierly worsens all three with an attitude that they don't matter. That is why it is hugely damaging. Some of us, on both sides of the aisle, have been working for years to get our colleagues to accept the severity and urgency of our problem and the necessity to take bold steps to fix it. We have been making progress. The President has just reversed that progress. It is even scarier to imagine that he would actually push this sort of budget forward next year if he were to be re-elected.

Social Security Tax Cut: Since I have been in office, I have witnessed the political dynamic that has led to our deficits. There is a constituency for every dollar of spending in the federal budget and for every tax deduction or credit in the tax code. Those constituencies are very vocal about protecting their turf. But, there was never a constituency for the deficit. So, when Republicans and Democrats had to reach a compromise on something, they would increase spending while lowering taxes. This way, everybody is happy and the only loser is the deficit -

about which nobody screamed too loudly. The "tea parties" ostensibly became the constituency for the deficit in the last couple of years. They gave some voice to the debt and the deficit and helped create some progress of late.

However, the "payroll tax deal" struck last week shows that we have regressed to the old ways. In this horrible deal, Social Security taxes will be cut for 10 more months, but benefits will not decrease. This agreement provides both extended unemployment benefits for the rest of the year and a 37% increase, over the same time period, in reimbursements to doctors who take Medicare patients. Most of these costs will merely add to the deficit. The part that is "paid for" will be "paid for" by increasing fees, selling assets and having federal workers pay more for their pensions - over the next 10 years. So, we change things for 10 *years* in order to partially "pay for" 10 *months* of benefits.

These asset sales and retirement savings are good things. But, they should be used to reduce the deficit, not pay for new spending. This is the same sort of "compromise" we have been making for years. Republicans get a tax cut and Democrats get more spending and the only loser is the deficit and the Social Security trust fund. This "deal" will increase the deficit in fiscal 2012 (this year) and fiscal 2013 (next year) by \$141 billion. In other words, in one action, we have eclipsed all the savings made during last April's government shutdown standoff.

Republican Budget: As part of the "failure" of the Supercommittee and the "debt deal" last August, defense spending (and Medicare spending) was "sequestered" or cut by about \$600 billion over the next 10 years. Many Republican "defense spending hawks" are displeased with that sequester. I disagree with them, but there are more of them than there are of me. Therefore, there is a move to repeal those defense cuts in the coming budget. This is coming less than 2 months after these cuts became law and 10 months before a single actual cut has been made. To be fair, they are talking about "replacing" those cuts with cuts somewhere else in the budget. But, if we can make cuts elsewhere in the budget, why don't we do those too and just reduce the deficit?

What do all three of these developments have in common? All will serve to increase the deficit and the debt. All propose to take items that could reduce our deficit and use them instead to support new spending. All seem to indicate that the prevailing view in Washington is that more spending, even if it leads to increased or sustained deficits, is a political winner.

Now, I understand that there are election-year politics in play here. But in America, the next election is always less than 2 years away. At some point, and soon, we are going to have to do the right thing and move these deficits in the other direction. The problems in Europe, China, India and other countries around the world have bought us time to fix our problems. Our debt is

still attractive to buyers because our bad situation still looks better than the rest of the world at the moment. As has been said, we are the cleanest shirt in a dirty laundry bag. But, this will change at some point. And when it does, it may be too late for us to avoid extensive damage. Europe's problems are a direct result of their decision years ago to pay themselves the benefits of socialism while borrowing the costs thereof. Now, they are in a crisis and they must fix it right away. This means, for a time, the problem will get worse.

We do not have to follow the path of Europe. First of all, we can choose not to embrace the socialism that Europe has and that our President seems to desire (more about that in coming weeks). Instead, we can begin to fix our debt problems now, slowly, so that the negative impact on the economy will be nil. If we wait until a crisis, then we are going to be like Greece or Italy (or California) and we will have to take immediate and dramatic actions that hurt the economy for years in order to avoid a worse collapse.

But, the actions of last week were not encouraging. A few years back, a small band of us led by Jeff Flake (R-AZ) took on both the Democratic and Republican establishment in a mission to stop earmarks. It was a hard and lonely fight, but we won. This is a bigger fight. We have to win this one too.